RAPID-AMERICAN CORPORATION

ANNUAL REPORT 1968

Rapid-American Corporation

annual report
for the year ended January 31, 1969

Highlights:

- **Earnings of $10,896,000, equal to $3.25 per common share—another record year.**

- **Rapid-American acquired 12,800,000 shares of Glen Alden Corporation common stock, 64 per cent of the common stock outstanding.**

- **Acquisition of Cross Country Clothes, Inc., a leading menswear manufacturer.**

- **New York Stock Exchange listing—RPD.**

- **Annual dividend increased to $.75 per share of common stock.**

Contents:

Annual Meeting: The Annual Meeting of Shareholders of Rapid-American Corporation will be held in Room 315, Chemical Bank Building, 277 Park Avenue, New York City, on Wednesday, May 28, 1969 at 1 p.m.

To our Shareholders:

We are pleased to report that in fiscal 1968 significant progress was made in sales and earnings. Since our last annual report the following accomplishments have been achieved by your company:

■ Earnings of $10,896,000, compared with $7,190,000 for fiscal 1967, or $3.25 per share for fiscal 1968, compared with $2.75 for the previous fiscal year.*

■ Sales of $926,921,000, compared with fiscal 1967's sales of $873,270,000. Sales increased for Joseph H. Cohen & Sons, Leeds Travelwear, and Cross Country Clothes, all wholly-owned operations, as well as McCrory Corporation, a subsidiary.

■ Acquisition of Cross Country Clothes was a notable event of the year. This menswear manufacturer, based in Northampton, Pa., has excellent standing among leading retailers. It also has the organization and the know-how to remain in the forefront of this field.

■ Dividend increased, in January 1969, from the annual rate of 50 cents per share of common stock to 75 cents per share.

■ New York Stock Exchange listing for your company's common stock and $2.25 preferred stock. Early in 1969 your company's 7% debentures were listed on the New York Stock Exchange and its callable warrants on the American Stock Exchange.

■ Acquisition of Glen Alden common stock: Your company acquired 12,800,000 shares of Glen Alden common stock, or 64 per cent of its common shares outstanding, through an exchange offer and market purchases.

Overall, your company in 1968 became stronger operationally and financially. All major units made substantial progress during the year. Both principal corporate members of the Rapid-American family of companies, McCrory Corporation and Glen Alden Corporation, set earnings records. Glen Alden obtained 88 per cent of the

outstanding shares of Schenley Industries, Inc., a leading producer-importer and marketer of alcoholic beverages.

So that you may have more information about our Family of Companies, we are mailing you the 1968 annual reports for McCrory and Glen Alden.

We look forward to continued growth in 1969 not only in the Rapid-American operating divisions, Joseph H. Cohen & Sons, Leeds Travelwear and Cross Country Clothes, but throughout all the operations affiliated with us. In its entirety, the family of companies represents combined sales of about $2.25 billion and assets of about $1.6 billion.

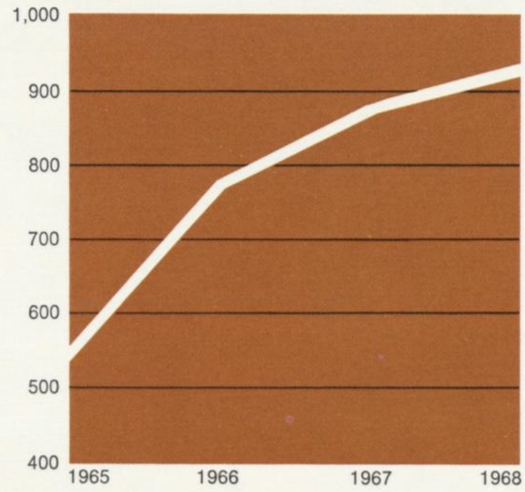
With a reasonably prosperous economy in 1969 and the continued support of our banks, suppliers, directors, officers and employees, we expect to make the current year a worthy successor to the very good year of 1968.

Sincerely,

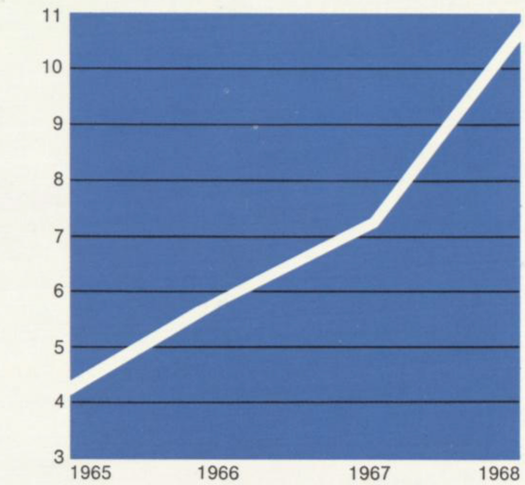
M. Riklis
Chairman of the Board and President

April 15, 1969

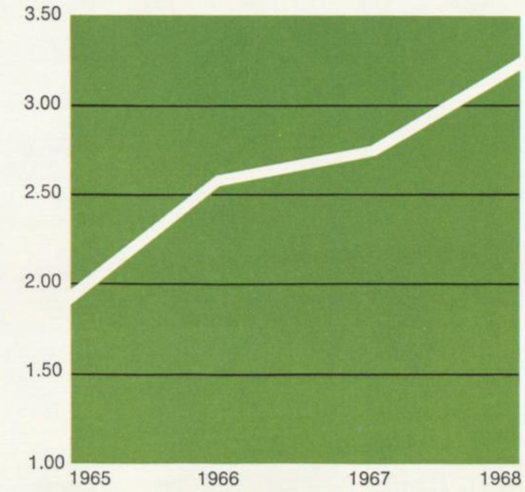
**The results for the year ended January 31, 1969 include both a $2,419,000 charge equivalent to the reduction in the company's Federal income taxes resulting from utilization of tax-loss carry-forwards, and a corresponding extraordinary credit for the same amount, equal to $.80 per common share. The results also include an extraordinary credit of $518,000 arising from the sale of securities and certain operating units, equal to $.17 per common share.*



Net Sales
Millions of Dollars



Net Income
Millions of Dollars



Net Income Per Share
Dollars

The Structure of The Rapid-American Family of Companies:

RAPID-AMERICAN CORPORATION

Parent Company
Listed on New York Stock Exchange

GLEN ALDEN CORPORATION

64% of common stock owned by Rapid-American
Listed on New York Stock Exchange

INTERNATIONAL PLAYTEX

Manufactures and markets girdles, br
and family products

B. V. D. COMPANY

Manufactures, markets, retails men's apparel;
produces other soft goods

SWIFT TEXTILES
OPP & MICOLAS MILLS

Manufacture woven cotton, apparel and
industrial fabrics

SCHENLEY

88% owned by Glen Alden
Listed on New York Stock Exchange

Produces, imports, markets alcoholic beverages

RKO-STANLEY WARNER THEATRES

Operates 130 motion picture theatres in 95 cities

PHILIP CAREY

Manufactures building materials for home
and commercial construction

ILC INDUSTRIES

70% owned by Glen Alden

Produces Project Apollo spacesuits,
inflatable structures

RAPID-AMERICAN

Wholly-Owned Divisions

JOSEPH H. COHEN & SONS

Manufactures men's tailored apparel sold by
many leading retailers throughout the nation

LEEDS TRAVELWEAR

Manufactures broad range of luggage
and sportsbags

CROSS COUNTRY CLOTHES

Manufactures suits and sport coats for some of
the country's largest retail chains

The Concept of The Rapid-American Family of Companies:

McCRORY CORPORATION
51% owned by Rapid-American
Listed on New York Stock Exchange

McCRORY-McLELLAN-GREEN
Operates major variety store chain with 600 outlets

OTASCO & ECONOMY AUTO STORES
Sells auto, home and outdoor products, through 471 stores in South and Southwest

LERNER SHOPS
61% owned by McCrory
Listed on American Stock Exchange
Nation's largest chain specializing in women's and children's apparel, with 375 shops across country

BEST & CO.
Famous Fifth Avenue store in New York, plus 15 branch stores

S. KLEIN
Operates 14 high-volume department stores from New York City to Washington

Rapid-American Corporation is the central element in a large structure of operating entities. Through channels of ownership and control, Rapid-American participates in the success of the individual units that constitute the family of companies. This gives Rapid-American the potential for continued earnings growth.

WHOLLY-OWNED OPERATIONS are Joseph H. Cohen & Sons, Leeds Travelwear, and Cross Country Clothes. Each demonstrates four characteristics: in-depth competent operating management; expertise in producing consumer products for which there is broad and continuing demand; strong leadership position in its field; and the prospect of sustained growth.

McCRORY CORPORATION is broadly based in the retailing field—its scope has been described as "total retailing." Its ability to develop effective teams of operating management has been a key factor in its successful operations.

GLEN ALDEN CORPORATION consists of seven separate operations. Three of them are acknowledged leaders in the mass marketing of consumer packaged products. Four others are in widely diverse fields and each has its individual pattern of growth opportunity.

RAPID-AMERICAN FUNCTIONS. As the control and long-range planning base of its family of companies, Rapid-American Corporation has its own specific functions. The underlying principle is that operating managements should be given the support—and the freedom from non-operating details to concentrate on the effective running and development of their particular businesses. Therefore, Rapid-American corporate executives provide central guidance in financial policy and capital projects and they administer service programs.

Corporate executives are in continual contact with the operating management teams. They review each unit's operating plans and its progress against the planned objectives. One objective that is continually stressed: good managers should be placed at every level of every unit, with additional talent being developed.

The concept of Rapid-American, to sum up, is to achieve continued earnings growth through participation in the success of excellent operations, the operations of the Rapid-American Family of Companies.


JHC

Joseph H. Cohen & Sons

Capitalizing on the new status of fashion in menswear Joseph H. Cohen & Sons continues to advance in both marketing and production, furthering its position of leadership in the design and manufacture of men's tailored clothes.

In 1968 the firm launched its first advertising program in consumer publications, featuring priceless works of art and the sensibly-priced quality fashions of the JHC Division. The program reinforced the company's reputation with its retailing customers throughout the nation.

The JHC Division continued its progress in establishing a major position for itself in the higher-quality, medium-price range it entered two years ago. Gains were also made by the upgraded popular-price line marketed by the Career Clothes Division and volume-price line marketed by the Horatio Alger Division.

On the production side of the business, plans were made for a major expansion and modernization of its main plant in Philadelphia scheduled for completion in the spring of 1970. This includes:

□ Construction of an 11-story, 150,000 square foot building adjacent to the present factory. This will enlarge main production facilities by 50 per cent and permit substantial increase in output.

□ Renovation of present facilities, with installation of the latest specialized equipment and lighting, as well as air conditioning and other features for employee comfort.

□ Establishing expanded research and development facilities to accelerate the application of new materials and methods to the company's products.

□ Setting up a program to train the hard-core unemployed to become specialized operators for the company.

The expanded main plant in Philadelphia—together with other facilities in that city, a plant in New Haven, Indiana and a distribution center in Los Angeles—will give Joseph H. Cohen & Sons one of the most advanced production and distribution systems in the industry.

Above: An architectural rendering shows the factory building that is being constructed in Philadelphia. It is held by Merrill A. Conn, vice president and plants manager, who is in charge of the project.

Left: A new fashion gets a top-level going-over in the New York City showroom of Joseph H. Cohen & Sons. Standing are W. P. Cohen (left), chairman, and I. M. Cohen, president. Seated are (left to right): Leonard Baron, executive vice president; Gerald D. Olin, vice president-JHC; and Arnold S. Cohen, vice president-Career Clothes and Horatio Alger.

Leeds Travelwear

Leeds Travelwear, the largest producer of lightweight zippered luggage in the country, in 1968 further improved its ability to serve a public that is increasingly on the go.

Leeds, with a modern, efficient plant in Clayton, Del., is known as a leader in the application of research and development to luggage design and production. While continuing its stress on technology and production, the company has added increased marketing emphasis to its operations.

The company began 1968 with newly designed lines, reflecting the importance of style in luggage purchasing. In addition, a number of significant items were introduced during the year:

☐ Underseat or "take-along" bags, 1968's fastest-growing sales category. These bags are bought by air travelers who want to avoid baggage unloading and delivery delays at terminals. They are "item" rather than "set" purchases. (Traditionally luggage has been sold to people who are starting or filling in a matched set.) Although Leeds underseat bags quickly carved out a meaningful place in total volume, sale of set pieces continued strong.

☐ The "Roto-Cast" zippered all-purpose sportsbag, a waterproof, inexpensive bag that is the product of the company's exclusive production process. It has proved to be successful both in stores and in premium selling. (The "Roto-Cast" zippered bag helped Leeds broaden its position as a premium-supplier, an outlet for luggage that is increasingly important.)

☐ A new line of quality golf bags under the "Arnold Palmer" name. These handsome bags, which are priced at retail as high as $120, have opened a number of prestige stores to Leeds.

For the year ahead, the company's research program has a number of projects in the testing stage and it is preparing further styling innovations. Leeds is expected to continue to capitalize on the upward trend of travel and sports in our country.

The contemporary styling of the Leeds lines of luggage and sportsbags matches the sleek lines of the latest development in rapid transportation, Penn Central's Metroliner. The Leeds Travelwear management team is (left to right): Ken Byrnes, vice president-manufacturing; Kenneth Felder, executive vice president-marketing; Thomas Cahill, Jr., president; and Arnold Morris, controller.

At a cutting table of the modern Cross Country Clothes plant in Northampton, Pa., are key members of its top management (left to right): Ignatius Billera, Anthony Billera, John Moglia, and Franklin Billera. Cross Country Clothes became a member of the Rapid-American Family of Companies in September.

Cross Country Clothes

Cross Country Clothes, which joined the Rapid-American Family of Companies during 1968, is one of the nation's leading manufacturers of popular and medium priced men's suits and sport coats. Though the Cross Country name is not nationally advertised, the company's products are marketed widely through leading chain stores, department stores and independent retailers under the retailers' brand names. Indicative of the style, quality and service offered by Cross Country is its blue-ribbon roster of customer-retailers, and the future of Cross Country Clothes is tied closely to the optimistic growth projected for its customers—the nation's major retailing organizations.

Under the direction of its founders and continuing executive officers, Ignatius Billera and Anthony Billera, Cross Country has gained a reputation throughout the apparel industry for production efficiency.

The Cross Country manufacturing facilities are the result of the latest in industry equipment and technique, combined with Cross Country's own years of trial and development. New machinery and techniques are constantly being introduced to improve both quality and efficiency, while extensive training of personnel plays an important role in the company's overall progress. The main manufacturing facilities are located in Northampton, Pa., as are the company's executive offices. In nearby Egypt, Pa., the company has additional manufacturing space, and a smaller plant is located in Philadelphia, Pa. The company's main sales offices are located in the heart of New York's men's apparel market.

The Cross Country product is sold in three major categories the first of which, the Cross Country Division, accounts for the major portion of the company's sales. The Mercury Casuals Division and the Holiday Clothes Division account for the balance of Cross Country's sales. These divisions offer retailers suits and sport coats in three different price categories—thereby enabling the company to cover a large segment of the male buying potential.

Financial Statements

RAPID-AMERICAN CORPORATION

AND WHOLLY-OWNED SUBSIDIARY

PRO FORMA CONDENSED BALANCE SHEET—JANUARY 31, 1969

GIVING EFFECT TO EXCHANGE OFFER FOR GLEN ALDEN

ASSETS

	Number of Shares Owned	Percentage of Outstanding	Approximate Market Quotation Value*	Carrying Value at Equity	
Current assets					$ 32,358,000
Investments in common stock of:					
Glen Alden Corporation	*12,800,000*	*64.0%*	*$181,000,000*	*$133,305,000*	
McCrory Corporation	*2,621,268*	*50.5%*	*88,000,000*	*49,379,000*	
* On March 21, 1969			*$269,000,000*		182,684,000
Other investment—at cost					1,982,000
Property and equipment—net					8,145,000
Excess cost of investments over related equities					81,363,000
Deferred charges, etc.					16,146,000
					$322,678,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	$ 24,754,000
Long-term debt—less current portion	72,470,000
Sundry—non-current items	2,646,000
Convertible debt	18,327,000
Shareholders' equity	204,481,000
	$322,678,000

This balance sheet of Rapid-American Corporation and wholly-owned subsidiary at January 31, 1969 gives effect, as follows, to the shares of Glen Alden Corporation common stock acquired pursuant to an exchange offer which expired on March 14, 1969:

Debit (000 omitted)

Investment in Glen Alden Corporation (approximately 12,680,000 shares)	$131,405
Excess cost of investments over related equities	66,695
Deferred charges (debt discount)	12,680
	$210,780

Credit (000 omitted)

Current liabilities (estimated expenses of exchange offer)		$ 7,900
Long-term debt (7% debentures)		50,720
Shareholders' equity		
Common stock	$ 3,170	
Capital surplus	148,990	152,160
		$210,780

See Notes to Financial Statements—Investments—Affiliates—Glen Alden Corporation.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended January 31, 1969	1968
Revenues:		
Net sales	**$926,920,964**	$873,269,853
Other—net	**4,891,636**	4,321,309
	931,812,600	877,591,162
Costs and Expenses:		
Cost of goods sold	**676,896,919**	647,454,038
Selling, general and administrative expenses	**194,224,212**	178,470,800
Interest and debt expense	**16,841,403**	14,144,637
Depreciation and amortization	**9,783,480**	9,781,527
Federal income taxes	**16,115,106**	11,549,494
	913,861,120	861,400,496
Income Before Minority Interest and Extraordinary Credits	**17,951,480**	16,190,666
Income Applicable to Minority Interest	**9,992,220**	9,000,609
Income before Extraordinary Credits	**7,959,260**	7,190,057
Extraordinary Credits:		
Tax loss carry forward—*credit equivalent to reduction in taxes arising from utilization of net operating loss carry-overs*	**2,418,800**	—
Gain on the sale of securities and subsidiary's operating units net of related income taxes	**518,167**	—
	2,936,967	—
Net Income	**$10,896,227**	$ 7,190,057

	1969	1968
Per Share of Common Stock:		
Income before extraordinary credits	**$2.28**	$2.75
Extraordinary credits:		
Tax loss carry forward	**.80**	—
Gain on sale of securities, etc.	**.17**	—
	.97	—
Net income	**$3.25**	$2.75

Pro forma net income per share of common stock, reflecting assumed exercise of all warrants and options and conversion of all convertible securities of Rapid, would have been $2.17 per common share (including extraordinary credits of $.64 per common share) for the year ended January 31, 1969.

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Assets

	January 31, 1969	1968
Current Assets:		
Cash	**$ 20,446,560**	$ 11,989,511
Receivables, less allowances ($1,770,714 and $1,641,483)	**9,770,283**	9,987,567
Inventories, at lower of cost or market	**150,161,395**	132,893,389
Prepaid expenses, etc.	**5,756,631**	5,334,178
Total Current Assets	**186,134,869**	160,204,645
Investments in and Advances to:		
Glen Alden Corporation, at cost	**36,168,055**	34,267,491
McCrory Credit Corporation, at equity	**10,766,867**	10,056,269
North Shore National Bank of Chicago, at cost	**1,982,500**	1,982,500
	48,917,422	46,306,260
Property and Equipment, at cost	**203,960,363**	186,146,880
Less accumulated depreciation and amortization	**109,017,080**	102,700,084
	94,943,283	83,446,796
Other Assets:		
Excess of cost of investments over related equities	**35,294,746**	32,494,742
Unamortized debt expense	**7,080,880**	8,363,136
Deferred stock bonus expense	**6,415,795**	—
Trademarks, deferred charges and unamortized goodwill	**5,222,225**	3,970,925
Mortgages and sundry	**2,033,088**	2,993,360
	56,046,734	47,822,163
	$386,042,308	$337,779,864

See Notes to Financial Statements.

Liabilities and Shareholders' Equity

	January 31, 1969	January 31, 1968
Current Liabilities:		
Notes payable	**$ —**	$ 2,500,000
Current maturities of long-term debt	**15,355,688**	11,389,677
Accounts payable	**30,473,156**	30,563,111
Accrued expenses and sundry	**31,314,510**	25,857,170
Accrued Federal income taxes	**13,580,804**	11,240,491
Total Current Liabilities	**90,724,158**	81,550,449
Long-Term Debt, less current maturities	**103,018,859**	102,071,065
Deferred Federal Income Taxes and Other	**29,157,598**	25,316,547
Minority Interest in Subsidiary Companies	**80,445,580**	66,185,455
Convertible Subordinated Debt	**30,375,547**	24,541,047
Shareholders' Equity:		
Preferred stocks	**1,002,280**	2,030,154
Common stock, $1 par value, authorized 10,000,000 shares, issued (1969) 3,621,843 shares and (1968) 2,847,484 shares, treasury stock (1969) 31,036 shares and (1968) 34,536 shares	**3,590,807**	2,812,948
Capital surplus	**42,505,575**	38,796,844
Earned surplus	**12,120,205**	5,512,437
Equity in subsidiaries' cost of treasury stock	**(6,898,301)**	(11,037,082)
Shareholders' Equity	**52,320,566**	38,115,301
	$386,042,308	$337,779,864

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE TWO YEARS ENDED JANUARY 31, 1969

	Outstanding Preferred Stocks	Outstanding Common Stock	Capital Surplus	Earned Surplus	Equity in Subsidiaries' Cost of Treasury Stock
Balance at February 1, 1967 restated	$3,067,249	$2,101,707	$26,220,005	$ 149,151	$(2,562,791)
Add (Deduct):					
Net income				7,190,057	
Reclassification of preferred stock	(271,893)		271,893		
Common stock rights offering		196,765	3,148,240		
Dividends:					
On preferred stock				(885,399)	
On common stock ($.125 per share)				(336,309)	
Exercise of warrants and options	38,755	308,412	1,413,370		
Conversion of preferred stocks and debentures	(803,957)	206,064	598,993		
Expenses of rights offering, merger of Leeds, and other			(686,188)	1,360	
Equity in certain transactions of subsidiaries			7,830,531	(606,423)	(8,474,291)
Balance at January 31, 1968	2,030,154	2,812,948	38,796,844	5,512,437	(11,037,082)
Add (Deduct):					
Net income				10,896,227	
Dividends:					
On preferred stock				(915,259)	
On common stock ($.6875 per share)				(2,221,263)	
Exercise of warrants and options	10,064	137,623	1,355,941		
Conversion of preferred stocks and debentures	(1,037,938)	536,736	2,622,586		
Issuance of shares pursuant to stock bonus plans		103,500	2,586,188		
Equity in certain transactions of subsidiaries			(2,855,984)	(1,151,937)	4,138,781
Balance at January 31, 1969	$1,002,280	$3,590,807	$42,505,575	$12,120,205	$(6,898,301)

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

SOURCE AND APPLICATION OF CONSOLIDATED FINANCIAL RESOURCES

	Year Ended January 31, 1969	1968
Source		
Operations:		
Net income	**$10,896,227**	$ 7,190,057
Charges not requiring current outlays:		
Depreciation and amortization, including debt and in 1969 stock bonus expense	**11,641,301**	10,680,663
Income applicable to minority interest (less dividends paid of $4,474,484 and $4,554,578)	**5,517,736**	4,446,031
Deferred Federal income taxes	**4,179,000**	3,856,000
	32,234,264	26,172,751
Increase in long-term and convertible subordinated debt net of repayments (1968 exclusive of $27,406,849 issued during the year by subsidiaries in tender offers and in acquisition of S. Klein Department Stores, Inc.)	**8,904,094**	1,799,911
Common stock rights offering	**—**	3,345,005
Exercise of warrants, stock options and issuance of bonus shares	**1,607,128**	1,760,537
Equity in certain transactions of subsidiaries	**3,568,190**	(4,828,839)
	46,313,676	28,249,365
Application		
Additions to property and equipment—net	**21,279,967**	10,541,104
Cash dividends	**3,136,522**	1,221,708
Cost in excess of net assets of purchased business	**2,800,004**	—
Increase in investment in Glen Alden	**1,900,564**	—
Other—net	**440,104**	(56,527)
	29,557,161	11,706,285
Increase in Working Capital	**$16,756,515**	$16,543,080

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS, JANUARY 31, 1969

Principles of consolidation

The consolidated financial statements include the accounts of Rapid-American Corporation (Cross Country Clothes Division since September 1968, date of acquisition) and its operating subsidiaries McCrory Corporation and Hanover-North Shore, Inc.

The McCrory consolidated financial statements include Lerner Stores Corporation and all wholly-owned subsidiaries except McCrory Credit Corporation.

McCrory Credit Corporation and equity in instalment accounts sold

Rapid and its affiliates assign certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept reassignment of any accounts in default, as defined. The 10% equity of Rapid in assigned accounts (the uncollected balances of which amount to $56,740,000 at January 31, 1969) is included in receivables in the consolidated balance sheet. Collections in January 1969 (payable to McCrory Credit Corporation in February 1969) from assigned customers' accounts (net of 10% equity) amounting to $19,400,000 have been deducted from receivables in the consolidated balance sheet. The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings at January 31, 1969 as summarized below:

Accounts receivable, less unearned discount	$ 55,178,763	
Cash	7,182,696	
Other assets, less other liabilities	1,055,408	$ 63,416,867
Notes payable to banks	52,650,000	
Notes payable to McCrory and subsidiaries	7,000,000	59,650,000
McCrory's equity		$ 3,766,867

Net income of McCrory Credit Corporation for the years ended January 31, 1969 and 1968 of $710,598 and $430,701 respectively, is included in consolidated income.

Inventories

Inventories, at lower of cost or market, consist of the following:

	January 31, 1969	January 31, 1968
Raw materials, including merchandise at contractors—at specific invoice cost or replacement cost	$ 6,591,099	$ 5,231,880
Work in process at average cost	8,471,301	5,271,577
Merchandise in transit, at warehouses, and at restaurants—at cost	13,382,490	10,917,904
Merchandise at stores and warehouses:		
At retail method	90,418,939	85,345,929
At first-in, first-out cost	31,297,566	26,126,099
Total	$150,161,395	$132,893,389

Investments

CONSOLIDATED SUBSIDIARIES:

McCrory Corporation—Rapid owned at January 31, 1969 and 1968, 2,621,268 shares (50.5% and 54.6% respectively) of McCrory common stock. At January 31, 1969 these shares were pledged as collateral to secure $20,500,000 of notes payable by Rapid.

Lerner Stores Corporation—McCrory owned at January 31, 1969 and 1968, 2,558,815 shares of Lerner common stock (60.6% and 61.7%, respectively).

At January 31, 1969 the aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows: common stock of McCrory ($1,526,669), common stock of Lerner ($8,720,000), securities of Klein ($11,907,148) and operating assets of Joseph H. Cohen & Sons ($10,340,925) and Cross Country Clothes ($2,800,004). Under certain conditions Rapid is obligated to pay additional amounts for its investments in Joseph H. Cohen & Sons and Cross Country Clothes.

The excess purchase costs have been recognized by the managements of Rapid and McCrory as being similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, the managements of Rapid and McCrory adopted the policy of not amortizing these excess purchase costs so long as there is no diminution in value of the related investments.

AFFILIATES:

Glen Alden Corporation—In November 1968 Rapid acquired, in open market purchases, 120,300 shares of Glen Alden common stock. McCrory owned at January 31, 1969 and 1968, 2,388,230 common shares of Glen Alden (13.3% and 30.5%, respectively); on March 14, 1969 these shares were tendered to Rapid in exchange for 597,058 shares of Rapid common stock, 1,194,115 callable warrants to purchase Rapid common stock at $35 per share, expiring May 15, 1994, and $9,552,920 principal amount of Rapid 7% subordinated debentures, due May 15, 1994. It is the present intention of McCrory's management to dispose of all of the Rapid securities.

North Shore National Bank of Chicago—At January 31, 1969, the principal asset of Hanover-North Shore, Inc., wholly-owned by Rapid, was 85,000 shares of common stock (28%) of North Shore National Bank of Chicago which were pledged as collateral to secure $800,000 of notes payable of Hanover-North Shore, Inc. and had a market quotation value of $1,955,000.

Property and equipment

Property and equipment, stated at cost, consist of the following:

	January 31, 1969	January 31, 1968
Buildings, store properties, warehouses and leased facilities	$ 18,028,627	$ 15,918,010
Furniture and fixtures and leasehold improvements	181,480,666	166,990,482
Machinery and equipment	4,451,070	3,238,388
Total	$203,960,363	$186,146,880

Rapid and its subsidiaries provide for depreciation and amortization at rates applied generally on the straight-line method over the estimated service lives of the properties.

Debt

Long-term debt at January 31, 1969 and maturities due within one year consisted of the following:

	Current Maturities	Long-Term Debt
5%-7½% notes, due 1969 to 1976	$ 6,750,000	$ 21,000,000
5½% sinking fund subordinated debentures, due 1976 (a)......	2,047,920	30,726,720
5% junior subordinated notes, maturing serially to April 1, 1970	1,194,115	597,057
5% junior sinking fund subordinated debentures, due July 15, 1981 (b)...................	262,369	12,856,081
Notes payable to banks under Revolving Credit Agreement (c)..	—	24,500,000
6½% sinking fund subordinated debentures, due September 1, 1982	97,497	9,824,333
5.70% promissory note, due on September 1, 1969............	3,400,000	—
Sundry, principally mortgages....	1,603,787	3,514,668
Total............	$15,355,688	$103,018,859

Convertible subordinated debt at January 31, 1969 consisted of the following:

5¾% convertible subordinated debentures, due January 1, 1977, less debentures in treasury $750,000 (d)	$ 10,327,040
6% convertible subordinated notes, due May 31, 1970 to 1972 (e).......................	8,000,000
6½% convertible subordinated debentures, due February 15, 1992 (f)..................	12,048,507
Total.........................	$ 30,375,547

(a) Exclusive of $528 redeemed and cancelled which is available for 1970 sinking fund payment. Sinking fund requirements in each year are as follows: 1970 and 1971—$2,048,448; 1972 through 1976—$3,277,517, with a final payment of $12,290,687 due on August 15, 1976.

(b) Required annual sinking fund payments commencing January 30, 1970 are 2% of the aggregate principal amount outstanding on the preceding January 15. Such payments at the 2% rate continue each succeeding year to and including 1974 and at the rate of 5% with respect to each year thereafter to January 30, 1980.

(c) Revolving Credit Agreement: 90 day promissory notes to banks, with interest at current prime rate, renewable at the option of McCrory at each maturity date to December 30, 1970. It is McCrory's present intention to renew these notes until December 30, 1970.

(d) Convertible at the option of the holder into common stock of Rapid at $21.25 principal amount of debentures for each share of common stock, subject to anti-dilution provisions and callable upon notice at principal amount with interest to redemption date.

(e) Convertible at the option of the holders into common stock of Rapid at a conversion price of $30 principal amount of notes for each share of common stock, subject to anti-dilution provisions.

(f) Convertible at the option of the holder at a conversion price of $25 principal amount of debentures per share of McCrory common stock to and including February 14, 1972, $30 to and including February 14, 1977 and $35 to and including February 15, 1992. During the year ended January 31, 1969, $43,700 principal amount of these debentures were converted into 1,748 shares of McCrory common stock.

The aggregate of long-term debt and convertible subordinated debt maturing during the five years ending January 31, 1974 is approximately as follows: 1970, $15,356,000 (included in current liabilities); 1971, $15,461,000; 1972, $9,411,000; 1973, $8,575,000; and 1974, $5,813,000. The year 1971 does not include $24,500,000 of notes payable to banks under Revolving Credit Agreement (see (c) above).

Agreements covering certain indebtedness of Rapid contain covenants concerning working capital position, additional indebtedness and restrictions on transactions in capital stock, and prohibit the declaration and payment of dividends on its common stock subsequent to January 31, 1970.

Federal income taxes

For Federal income tax purposes accelerated methods of computing depreciation and the instalment method of reporting certain sales have been availed of by certain of Rapid's subsidiaries. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

Based on Federal income tax returns filed, which are subject to review by the Internal Revenue Service, Rapid has tax loss carryforwards of approximately $13,300,000 and $1,100,000 expiring in the years ending January 31, 1970 and 1971, respectively.

Preferred stock

At January 31, 1969, $2.25 Cumulative Convertible Preferred Stock of Rapid was as follows:

Number of shares:	
Originally authorized	1,100,000
Issued and outstanding.................	501,140
Per share:	
Par value	$ 2.00
Redemption price	47.25
Liquidation preference	45.00
Conversion rate........................	3 for 1
Common shares reserved for conversion.......	1,503,420
Aggregate par value of stock outstanding......	$ 1,002,280
Aggregate liquidation preference.............	$22,551,300

Options to purchase Rapid's $2.25 preferred stock are exercisable as follows:

	Option Price Range	Number of Shares
Outstanding February 1, 1968	$ 7.90–$23.31	7,137
Transactions during year ended January 31, 1969:		
Exercised	$ 7.90–$23.31	(5,032)
Cancelled	$11.25–$19.29	(320)
Outstanding January 31, 1969	$11.25–$23.31	1,785

At January 31, 1969, options to purchase 635 shares were exercisable at prices of $11.25 and $23.31. No additional options will be granted under this plan.

Common stock

Rapid's qualified stock option plan authorizes the grant to officers, other executives and key employees of options to

purchase 200,000 shares of common stock at not less than 100% of fair market value on the dates of grant. Option data for the year ended January 31, 1969 are as follows:

	Option Price Range	Number of Shares
Outstanding February 1, 1968	$ 8.17 –$23.00	147,863
Transactions during year ended January 31, 1969:		
Granted	$24.50	26,400
Exercised	$10.125–$17.50	(62,623)
Cancelled	$11.50 –$17.50	(4,325)
Outstanding January 31, 1969	$ 8.17 –$24.50	107,315
At January 31, 1969:		
Exercisable	$ 8.17 –$24.50	76,652
Available for grant		21,650

At January 31, 1969, warrants entitling their holders to purchase 150,000 shares of Rapid's common stock were outstanding as follows:

Expiration Date	Exercise Price	Number of Warrants
May 1, 1976	$20	50,000
June 1, 1976	5	100,000
Total		150,000

At January 31, 1969 there were 710,555 shares of McCrory common stock reserved for the conversion of McCrory preferred and preference stocks and debentures, 613,979 shares of McCrory common stock reserved for issuance under stock option plans, and 4,030,969 McCrory common stock purchase warrants outstanding.

Rapid, McCrory and Lerner adopted stock bonus plans during 1968. Rapid under its plans allocated and issued 103,500 shares of its common stock, and at January 31, 1969, 16,500 shares were available for allocation. McCrory under its plans allocated and issued 123,750 shares of its common stock (includes 3,850 shares subsequently repurchased) and 21,100 shares were available for allocation. Lerner under its plans allocated and issued 71,000 shares (entire authorized number) of its common stock. The excess of market value of such shares on the date of allocation over the par value thereof is being charged to income ratably over periods not exceeding eight years. Amortization for the year ended January 31, 1969 amounted to $764,854.

Pension plans

McCrory and Lerner have non-contributory pension plans covering certain of their employees. Pension costs accrued are funded as required. For the years ended January 31, 1969 and 1968 these costs amounted to $620,000 and $427,000, respectively. No contributions were required for one plan for these years since the amounts accumulated in the trust fund exceeded the liability and vested benefits, as computed by the consulting actuary. The past service costs in respect of certain of these plans was approximately $2,600,000, at January 31, 1969, which is being amortized over a 30 year period.

Commitments and contingencies

There are several claims pending against Rapid and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same. At January 31, 1969 the minimum annual rentals upon property leased to Rapid and its subsidiaries under leases expiring after January 1972 amount to approximately $34,500,000 plus, in certain instances, real estate taxes, insurance, etc.

Subsequent events

On February 18, 1969, at a special meeting, shareholders approved:

(a) Rescission of the quasi-reorganization effected by Rapid in June 1966. The accompanying financial statements have been restated to reflect the rescission by a charge to earned surplus and a credit to capital surplus of $5,212,756.

(b) Increase in the authorized common shares to 20,000,000 in connection with an Exchange Offer to acquire Glen Alden common stock. Pursuant to the Exchange Offer, which expired March 14, 1969, approximately 12,680,000 shares (63%) of Glen Alden common stock outstanding were acquired and Rapid issued approximately:

(i) $50,720,000 principal amount of 7% subordinated debentures, due May 15, 1994;

(ii) 6,340,000 warrants to purchase common stock at $35 per share, expiring May 15, 1994, callable at $20 per warrant; and

(iii) 3,170,000 shares of common stock.

ACCOUNTANTS' OPINION

To the Board of Directors and Shareholders of
RAPID-AMERICAN CORPORATION:

We have examined the financial statements of Rapid-American Corporation and subsidiaries except Lerner Stores Corporation and its subsidiaries for the year ended January 31, 1969. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Lerner Stores Corporation and its subsidiaries, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, shareholders' equity and source and application of consolidated financial resources present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1969 and the results of their operations and the source and application of their consolidated financial resources for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, we have also checked as to compilation only, the accompanying pro forma condensed balance sheet (giving effect to exchange offer for Glen Alden) of Rapid-American Corporation and wholly-owned subsidiary as of January 31, 1969, and in our opinion such pro forma condensed balance sheet has been properly compiled on the basis therein set forth.

New York, N.Y.
March 22, 1969

HASKINS & SELLS
Certified Public Accountants

BOARD OF DIRECTORS

Isidore A. Becker*	Leonard C. Lane*	Pinhas Riklis
Jack Brier*	Samuel J. Levy*	Lorence A. Silverberg*
George V. Delson	Samuel Neaman	Murray J. Toussie
Bernard Kobrovsky	Meshulam Riklis*	Harry H. Wachtel*

OFFICERS

Meshulam Riklis
Chairman of the Board and President

Leonard C. Lane
Vice Chairman

Samuel J. Levy
Vice Chairman

Isidore A. Becker
Financial Vice President

Harry H. Wachtel
Executive Vice President

Lorence A. Silverberg
Vice President

Anthony W. Trapani
Vice President and Treasurer

Joseph B. Russell
Secretary

*Member of Executive Committee.

AUDITORS .... Haskins & Sells, New York, N.Y.

GENERAL COUNSEL .... Rubin Wachtel Baum & Levin, New York, N.Y.

TAX ADVISORS .... Hanigsberg, Delson & Broser, New York, N.Y.

TRANSFER AGENTS

- Common Stock .... Chemical Bank, New York, N.Y.; First Jersey National Bank, Jersey City, N. J.
- $2.25 Convertible Preferred Stock .... Chemical Bank, New York, N.Y.
- Callable Warrants .... Chemical Bank, New York, N.Y.

REGISTRAR .... The Chase Manhattan Bank (N.A.), New York, N.Y.

LISTINGS

- Common Stock .... The New York Stock Exchange; The Cincinnati Stock Exchange
- $2.25 Convertible Preferred Stock .... The New York Stock Exchange
- Callable Warrants .... The American Stock Exchange
- 5¾% Convertible Debentures .... The American Stock Exchange
- 7% Subordinated Debentures .... The New York Stock Exchange

EXECUTIVE OFFICES: 711 Fifth Avenue, New York, N.Y. 10022